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C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 000206

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SUBJECT: TARIN'S CONTINUING BUDGET WOES

Classified By: Ambassador Anne W. Patterson for reasons 1.4 (b) and (d)

¶1. (C) Summary: In a meeting to clarify the status of U.S. assistance to Pakistan, Minister of Finance Shaukat Tarin told the Ambassador January 20 that he needs a total of \$2.174 billion from the U.S. (\$1.3 billion in Coalition Support Funds and a total of \$874 million in civilian assistance) in order to balance the Pakistani budget by the end of Pakistan's fiscal year June 30. He clarified that, unless a project is already included in the GOP budget, USG funding for that project will help only with Pakistan's foreign exchange, not/not with deficit reduction. With the ongoing military action costing the GOP \$1.2 million/day on top of the already-robust military budget and Pakistan's next review under its Standby Arrangement with the International Monetary Fund (IMF) - where insufficient GOP income was one of the prime sticking points in the November review - in mid-February, Tarin is clearly feeling the strain of making ends meet. While not unsympathetic to the GOP's plight, the Ambassador made clear that continued unfavorable coverage of the timeliness, amounts and scope of U.S. assistance in the Pakistani media and by Pakistani officials was growing increasingly tiresome in the U.S. Congress. She pointed out that no small part of the problem with payment of Coalition Support Funds was of the GOP's own making: staff remain unable to get visas to come to Pakistan to process paperwork and implement streamlined payment systems. Post has undertaken to formally review with the GOP approved projects (the PC1 process) in order to ascertain what the USG can fund that is consistent with our priorities. End Summary.

¶2. (C) In a meeting January 20 with Minister of Finance Shaukat Tarin and Minister of Economy Hina Rabbani Khar, the Ambassador and Civilian Assistance Coordinator Ambassador Raphel clarified the status of U.S. assistance flows to Pakistan. Secretary Finance Salman Siddique, Secretary Economic Affairs Division (EAD) Sibtain Halim, Advisor to the Minister of Finance Sakib Sherani and Economic Counselor were also present. The Ambassador stressed that the increasingly harsh rhetoric from the GOP, amplified in the Pakistani media, critical of perceived "delays" in the delivery of U.S. assistance, was fueling negative feeling towards Pakistan in the U.S. Congress and among the American people. This is coming precisely at the time when President Obama and senior members of his Administration, including the Secretary of State and the National Security Advisor, were all working to

expand and improve the U.S. relationship with Pakistan. The Ambassador admitted that although developing a process for disbursing the U.S. Tokyo pledge could have gone smoother, the GOP is well aware of the variance in U.S. and Pakistani budget cycles and the need for accountability to Congress in the disbursement of assistance money, whether it be civilian or military.

"But You Promised...."

13. (C) Tarin acknowledged the United States' need to target spending and install procedures to ensure accountability, but stressed that the GOP is counting on U.S. funds to meet the budget goals to which it committed to the IMF. Tarin referenced the U.S. commitment made during Pakistan's fourth International Monetary Fund (IMF) review in December to transfer some \$1.6 billion to the GOP before the Pakistani fiscal year ends on June 30: \$300 million via USAID and another \$1.3 billion in Coalition Support Funds (CSF). He said that, on top of the \$1.3 billion of CSF money, the GOP needs \$874 million to balance the budget. Tarin suggested the following breakdown for his request: \$174 in budget support, \$100 million each through the GOP budget for education and health, and \$500 million from Kerry-Lugar-Berman focused on poverty reduction (including \$200 million via the State Bank of Pakistan for microfinance; \$150 million for the Multi-Donor Trust Fund, poverty alleviation (BISP), and assistance to Balochistan; and \$50 million to fight hepatitis, among other programs). Anything

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less than \$874 million and Tarin said he cannot balance his budget to the IMF's satisfaction. Pakistan's next review by the Fund is scheduled for February 8-15.

Time is of the Essence for CSF

14. (C) Tarin said the GOP is spending \$1.2 million/day for ongoing Pakistani military actions against militants in NWFP and FATA. These funds are on top of the military's regular budget and are being paid out at the expense of the development budget. The Ambassador stressed that the U.S. is working hard to get the deferred CSF funds paid out ASAP, and that the approved \$349 million could be transferred in the coming weeks. Future payments depended upon having adequate numbers of the appropriate staff in place and close cooperation with the PakMil and MinFin to put in place the streamlined system developed by ODRP. The Ambassador also impressed upon Tarin that time is critical: if the necessary staff are not able to start work ASAP, we would not be able to ensure that future CSF payments would hit the GOP accounts before June 30. Tarin assured the Ambassador that he could assist with "any visas at all relating to the economy," and asked that the Embassy send him a list of pending visa requests.

15. (C) The Ambassador informed Tarin of the almost \$1 billion-worth of military-related hardware purchased or planned for Pakistan under the Pakistan Counterinsurgency Fund (PCF) and the Pakistan Counterinsurgency Capabilities Fund (PCCF). Tarin eagerly requested that he be informed of any transfers or purchases for the PakMil, as it gave him leverage in budget discussions with the military. Tarin said he is of course supporting the PakMil efforts against the insurgency and providing funds as required for the war. But both the Ministries of Defense and Interior consistently failed to deduct from their requests to the exchequer items procured on their behalf. The Ambassador and Ambassador Raphel committed to keeping Tarin up to speed with U.S. donations and programs (Note: Post has already provided MinFin with details of PCF/PCCF. End Note).

Assistance with Assistance

¶6. (SBU) In response to Tarin's question as to how much U.S. assistance would hit the GOP account by the end of the Pakistani fiscal year, the Ambassador clarified that \$174 million in budget support from the FY09 supplemental is nearly ready to move. Of that, \$44 million has already been put towards assistance for internally displaced persons (IDPs). Another \$85 million for the Benazir Income Support Program (BISP) was held up because of the slower than expected progress transitioning BISP to a needs-based distribution system and \$45 million for the Higher Education Commission (HEC) requires an agreed plan for expending the funds and assurances that all projects are on budget; these problems are now resolved. Some \$37.5 million is earmarked for Malakand reconstruction and the U.S. intends to contribute \$25 million to the Multi-Donor Trust Fund.

¶7. (SBU) Tarin thanked the Ambassador for the United States' assistance and agreed that it is important that, as Pakistan's largest donor, the U.S. get positive publicity. He added, however, that he can count only those USG funds that go towards projects already included in the GOP budget. For instance, Tarin said that Tarbela Dam, while a viable project, is not one that was included in the Pakistani budget this year. The \$16.5 million contribution can thus be thus counted positively against Pakistan's foreign exchange, but is not something the IMF will count in the revenue column at the next review. Similarly for the \$55 million for South Waziristan and the \$42 million for upgrades to Jamshoro power station, neither of which the GOP budgeted for in this fiscal year. Thus, some \$103.5 million of U.S. assistance will not positively impact the Pakistani budget.

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¶8. (C) Comment: Tarin's budget woes are not new, but they are becoming more acute. The overly-optimistic FY 2010 Pakistani budget rested in no small part on increased assistance flows, not all of which have materialized on the schedule or form preferred by the Ministry of Finance. Furthermore, GOP assurances to the IMF (and us) of increased revenue collection in FY2010 are unlikely to be met, with efforts to put a new value-added tax (VAT) in place lagging. Ambassador Raphael confirmed to Tarin that USAID expects to allocate another \$195 million for budget transfers from FY10 funds (\$125 million for BISP, \$45 million for the HEC, and some \$25 million for health). Even if these funds hit the GOP account by June 30, there will still be a shortfall of several hundred million dollars; and that is assuming that all of the projected \$1.3 billion in CSF funds also gets disbursed - a very unlikely scenario indeed. Post has undertaken to formally review with the GOP approved projects (the PC1 process) in order to ascertain what the USG can fund that is consistent with our priorities. Post will also continue to work closely with the Ministry of Finance to fully integrate how USG military funding will impact the GOP budget. End Comment.
PATTERSON